Mediterranean City Ports and the Chinese One Belt One Road Initiative

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Abstract

This paper discusses the characteristics, investments and impacts of the Chinese One Belt One Road (OBOR) initiative in the Eastern Mediterranean ports and Eastern European countries with particular emphasis on its realization in Greece in the port of Piraeus and the so-called Land-Sea bridge railway connections of this port to Eastern European countries. For Greece, the investments of Chinese company Cosco in the two container terminals of the port of Piraeus and later on for the acquisition of majority share for the whole of the port, has increased the traffic on the port in terms of containers and made it, within just a few years, the no. 1 port for containers in the Mediterranean and one of the top 5 in Europe. At the same time, it has caused some serious local objections concerning plans for expansion of port activities into areas that compete with similar local activities. The paper also discusses the concerns of the EU as a whole and of some European governments in the Chinese OBOR investments in the area of Eastern Mediterranean and Europe and concludes with a discussion on the pros and the cons of the OBOR initiative for the region as a whole.

Introduction

Mediterranean city ports have always been points of modal transfers from maritime to land transport over the course of long-distance transport chains to and from their final destination or origin. In most cases, these transfers have to do with access to local or national markets that are normally termed the "hinterland" of the port. The ports on the northern side of the Mediterranean have attracted particularly strong flows of maritime freight traffic as access to central and eastern European countries from these ports is usually quicker and easier. The Chinese government-owned shipping and logistics company, COSCO has selected certain ports within this network to serve as access points. However, they not only serve as transit ports to reach their national or international hinterlands, but also as transshipment ports, in which large ocean-going ships coming from the far east unload to smaller ships for delivery to other local or regional ports in the area. COSCO has mainly been using the ports of Piraeus in Greece[2] , Genova and Venice in Italy, Marseille in France, and Valencia in Spain in this way. Their most pronounced investment was in the port of Piraeus where they now own 51% of its shares. COSCO uses Piraeus as a modal transfer point to reach destinations in central and Eastern Europe. In doing so, it can reduce total travel times to the same final destinations in central and Eastern Europe by a total of around 10 days, on average, as compared with the long sea routes via Gibraltar and the big ports of Western Europe (Rotterdam, Amsterdam, Zeebrugge, Ostend, Le Havre)[3]

The Chinese selection of the northern Mediterranean ports as major transit and transshipment points in their transport and logistics chains is combined with strong investments and cooperation agreements between the Chinese government and the governments of the respective countries of the ports. These are all part of a wider Chinese initiative to open international corridors of transport and commerce linking China to its major markets. Known as the One Belt One Road or OBOR, and in some cases as the Belt and Road Initiative or BRI, the initiative was officially announced by President Xi Jinping in 2013. For the countries of the Eastern Mediterranean and the Balkan Peninsula, the Chinese government's implementation of the BRI has initiated several bilateral agreements in parallel to the multilateral cooperation agreement known as the 17+1 initiative.

In this paper, we examine the main characteristics of the OBOR initiative and its impact on the countries of the Mediterranean / Balkan Peninsula region. Our main country of reference is Greece, as until now most of the OBOR related investments in the Mediterranean region have taken place in this country.

Outline of the OBOR initiative

The One Belt One Road (OBOR) or Belt & Road initiative (BRI) can be depicted, however, as an initiative led by the government of China to create modern efficient transport and other infrastructures related to corridors and countries

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[2] This is the largest port of the country serving Athens and its vicinity.
[3] According to the Port of Piraeus newsletter, May 2019.

connecting China to major economic centres of the world. These OBOR corridors consist of six large land corridors across the Eurasian continent known as the "Silk Road Economic Belt" and an extensive maritime route network connecting Asia with Africa and Europe known as the "21st Century Maritime Silk Road".

The main routes that characterize these corridors are shown in Fig. 1a, b, and c and can be described as follows:

I. The "Land Bridge" rail corridor linking China to Europe through the central Asian countries (Figure 1a) consists of multiple rail links and connections. The "Land Bridge" also includes a road corridor. The rail / road corridor goes through Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, Turkmenistan, Iran, and Turkey, aligning broadly with routes of the ancient "Silk Road". It is the main land corridor linking China with the Mediterranean countries and the countries of the Balkan Peninsula.

II. The north rail corridor, linking China to Europe via Mongolia and the Russian Federation (Siberia) also includes several alternative routes and connections as shown in Fig. 1b.

III. The south corridors linking China to South-Asian countries include maritime links, and a rail / road corridor to Indonesia. From there it connects to Africa and the Middle East. Alternatively, there is corridor to Pakistan or to Myanmar and India.

IV. The main maritime corridor links China with ports in Southeast Asia, the Indian Ocean, the Arabic peninsula, the Mediterranean Sea, and southeast Africa (Fig. 1c). For the Mediterranean region, the main European port utilized by the OBOR initiative is in Piraeus, Greece.

The notion of "corridors" in the context of the OBOR initiative and its investments is not restricted to transportation. They are seen in a broader sense as reserved spaces for the transfer of energy, data and information, commerce, and manufacturing, etc. Along those corridors, and within the countries involved, there are investments for fibre optic networks, energy networks, international airports, and the creation of special economic zones, etc. There are also joint policies that are applied in economic areas of common interest and rigorous political support for international bilateral or multilateral cooperation agreements concluded by the Chinese government and the governments of the countries concerned. Table 1 shows the main agreements which China has concluded recently with the countries of the (eastern) Mediterranean and Balkan regions.

Category of cooperation agreements	***Description***
Agreements of general cooperation under the framework of the Belt and Road initiative (BRI)	The 17+1 multilateral agreement between China and 17 countries in the Eastern Mediterranean and Balkan area. Many other bilateral or multilateral agreements have been concluded in the frame of the 17+1 initiative as mentioned below.
	Bulgaria, the Czech Republic, Poland, Slovakia, and Serbia signed the MoU with China on "Jointly Promoting the Belt and Road Initiative - BRI" at the 17+1 Summit in Suzhou (China) in November 2015.
	Turkey and China signed a MoU on "Jointly Promoting the construction of the Belt and Road Initiative" before the G20 Summit in Antalya (Turkey) in November 2015.
	MoU of Cooperation between China and Croatia, Albania, Bosnia / Herzegovina, and Montenegro signed in May 2017.
	China and Greece signed a "2017-2019 Plan on Key Areas of Cooperation" in March 2017.
	Similar agreements were signed with other non-Mediterranean countries in the Eastern European corridor e.g. with: Hungary (2015), Rumania (2015), Latvia (2016), etc.
Agreements in the field of Transport and customs cooperation under the BRI	Hungary and Serbia signed a MoU with China on modernization of the railway link between Budapest and Belgrade in November 2014. Further agreements for the upgrade of this link were signed at the "17+1 Summit" in Suzhou in November 2015, and at the Belt and Road Forum (BRF) in Beijing in May 2017.
	Albania and Montenegro signed a MoU with Chinese company Pacific Construction Group on the construction of the Blue Corridor motorway project at the 17+1 Summit in Suzhou in November 2015.
	Bulgaria, Croatia, Latvia, and Lithuania signed a MoU on "Port and Harbor Industrial Park Cooperation" at the "16+1 Summit" in Riga (Latvia) in November 2016.
	Belarus, Turkey, and Uzbekistan signed an "Agreement on international transportation and strategy coordination" with China at the BRF in Beijing in May 2017.
	A number of countries including Greece, Belarus, Serbia, Switzerland, and Turkey signed a Joint Initiative on "Strengthening Standards Cooperation and Building" at the Belt and Road Forum in Beijing in May 2017. Further Agreements on customs cooperation have been signed by Poland in June 2016 and by the Netherlands and Poland at the BRF in Beijing in May 2017.

Table 1: Recent Agreements and projects under the OBOR initiative in the eastern Mediterranean – Balkan region Source: (Steer Davies Gleave, 2018)

Fig. 1a: The central, land OBOR corridor through Uzbekistan, Iran Turkey to the Mediterranean - Balkan countries

Source: (Morgan Stanley, 2018)

Fig. 1b: The northern, land OBOR corridor through the Russian Federation to Europe.

Source: EU funded project NEAR2 (*https://cordis.europa.eu/project/id/314254/reporting*) – Presentations in the 3rd NEAR2 Workshop, Shanghai 2014.

The so called 17+1 initiative was started in 2012 by the Chinese government and 16 countries in the Balkans / Eastern Mediterranean region (they became 17 later when Greece also joined this initiative). It is aimed at initiating and developing cooperation in many fields but mainly on developing the major transport corridors in central and Eastern Europe. The aim is to provide adequate connections to the ports used as the modal transfer points in the maritime/land transport chains from China to Europe. On the basis of the 17+1 initiative, China financed major transport infrastructures in all countries of the area together with other bilateral cultural, touristic, and commercial activities. Between 2012 and 2017, Chinese commerce with the countries of the 17+1 initiative doubled, reaching by 2017 a total value of approximately €65 billion, while the number of Chinese tourists to these countries tripled (Ferchen et al, 2018).

Financial means and instruments

The OBOR initiative is pursued via huge investments by the Chinese government, Chinese banks and companies. Between 2013 when the OBOR was announced until 2018, China has invested (through subsidies or loans) an estimated 200 billion dollars worldwide in the countries that participate in this initiative (OECD, 2018). It has been predicted that China's overall expenses over the lifetime of the OBOR/BRI could reach $1.2–1.3 trillion by 2027, though estimates on total investments can vary (Morgan Stanley, 2018). According to the same source, Chinese companies have invested $34 billion in overseas economic and trade cooperation zones in the OBOR connected countries and about 4 500 Chinese companies have set up businesses in these cooperation zones. They have paid $ 2.8 billion in taxes and fees to local governments and created more than 300 000 job openings for local people (Morgan Stanley, 2008).

These investments are channelled through two major Chinese lending banks, the China Development Bank (CDB) and the China Exim Bank (for Export-Import) which manages the country's foreign investment. By 2017, the China Exim had financed 1200 projects related to the BRI worth a total of €84 billion. Other Chinese state-owned banks that participate in the OBOR initiative are the Bank of China, the Industrial and Commercial Bank of China and the Agricultural Bank of China.

The main Chinese OBOR investments in the Mediterranean region are primarily through the 17+1 initiative and in the field of transport (highways, railways, airports and ports). The Balkan / Eastern Mediterranean area is probably the most pronounced area of Chinese investments in Europe. In November 2013, China, Serbia and Hungary signed a Memorandum of Understanding (MoU) for the construction of the Hungaro-Serbian High-Speed Railway (HSR), connecting Belgrade and Budapest. The link was part of the corridor that would facilitate transporting Chinese exports from Greek ports to European markets (Pavlićević, 2014)). China is pursuing other rail infrastructure projects along this corridor i.e., the railway route through North Macedonia and the upgraded north-south route in Serbia. In this way and given that the railway line from Piraeus to the northern borders of Greece is financed by the EU together with the Greek government, the whole railway axis from Piraeus to Budapest will have been completed when these projects are implemented.

OBOR investments in the Mediterranean – the case of Greece and the position of the EU

In the Mediterranean area, especially the eastern Mediterranean, the Chinese government has given priority to projects that develop the port infrastructures as well as those that connect these ports to Central and Eastern European countries. The port of Piraeus (also serving the capital city, Athens) was one of the first such ports. There, in 2008, COSCO acquired the concession to the containers piers II and III and started operations one year later. Eventually (in 2016), the same company acquired a majority stake (51%) of the company that owns and runs the port (with 26% more, as an option). In parallel to this first major investment, the Chinese government has also financed (under the 17+1 initiative and its several cooperation agreements) major road and rail infrastructures along the transport axes that connect Greece (and the port of Piraeus) with Bulgaria / Rumania on the one hand and with Serbia / Hungary on the other (see previous section).

Investments by COSCO from 2008 to 2016 for the improvement of infrastructures and equipment in the port of Piraeus are shown in Table 2. By August 2019, total investments had reached 800 million Euros . When COSCO acquired the 51% stake of the port of Piraeus, a resolution passed in the Greek Parliament in 2016 obliged the company to implement additional investments of

Figure 1c: The maritime OBOR corridor and its land / sea extensions in the Mediterranean area

Source: Author

Date of project	Amount(euros)	Aim of project
2008	50 million	30 years contract for the management of jetties no. II &III
From 2009	215 million	Upgrade of jetty II
From 2012	120 million	Construction of jetty III
From 2013	230 million	Upgrade of jetty II and Re-construction of jetty no. III
2016	280,5 million	Acquisition of the 51% of the Piraeus's shares

Table 2: Investments of COSCO in Piraeus in the period 2008-2016

approximately 600 million Euro[4] . The primary target of COSCO is to increase the annual capacity of the port of Piraeus to the level of 10 million TEU/year (TEU is the container equivalent unit). Already due to the investments made so far, the total number of containers moved through the port of Piraeus reached 5 million in 2018, a number that now ranks Piraeus as the first port in the Mediterranean.

As regards the impacts of these investments on employment and the wider economy in the region, there are notably an estimated 3000 new jobs that have been created directly through the COSCO investments (approximately 90% of them for Greek personnel) and about as many others for indirect employment. More importantly however are the wider developmental implications that seem to have been triggered by the port of Piraeus's transformation into the main maritime container node in the Mediterranean and Europe. These are the result of decisions made by private investors and large international companies (such as Samsung, ZTE, Huawei, DHL among others) to establish and develop value added activities in the Piraeus port region[5].

These decisions would not have been made if the port of Piraeus had not been functioning as a large-scale distribution center for containers. Despite the promising messages noted above from the Piraeus port developments, there remain some reservations and causes for concern. These are mainly related to wider reservations about the increased Chinese influence and political leverage that the official EU leadership sees in the OBOR Chinese policy (Van der Putten, 2016). The collective position of the EU towards the OBOR initiative is – at best - cautious. The European Commission has on several occasions characterized the OBOR initiative as a medium for the advancement of Chinese commercial and political influence which "in the long term could be to the detriment of the national interests of the EU member countries" (Van der Putten, 2016). A concise and officially adopted EU policy on behalf of the OBOR has not, however, been formally adopted. Instead, several EU documents and reports have been issued. These documents express the unofficial position of the EU towards the OBOR.

Perhaps the most holistic view of the EU's position was given in a recent report by the European Parliament (2018). This position is one of a critical stance; not against the OBOR initiative as a whole, but opposing some practices that the Chinese employ when investing in OBOR infrastructures. As an indicative presentation of the EU's position, the following five conditions are mentioned as those the EU sets to "recognize" and cooperate with the OBOR initiative:

1. Existence of reciprocity such that the financed infrastructures and the policies applied are recognized as being beneficial for both sides involved.

2. Establishment of transparent and objective procedures in the assignment of various construction contracts.

3. Equal access for both European and Chinese companies to the markets "opened" by the OBOR infrastructures. This is a serious point of friction for EU member countries as the assignment of the OBOR construction contracts are normally assigned to Chinese companies

4. Use of commonly agreed and accepted technical standards in the construction of the OBOR infrastructures. The EU generally demands that the OBOR investments are made in accordance with the same environmental and technical

[4]These are the investments concerning the development of new hotels, shopping malls, shipyards, a car terminal and new logistics warehouses. As it was to be expected this type of investments create competition to other existing similar ones and as a result, they have attracted some negative reactions mainly from local authorities and private business interests.

[5]During the years after the first acquisition of the two piers II and III by COSCO, the Greek economy went into a severe economic crisis that lasted a decade. During this decade the Greek economy contracted by almost 25%. It is expected that the secondary implications from the development of the port of Piraeus would have been greater should the national economy be in a healthier state. In Africa, this practice is much more pronounced and according to a recent survey there, by the McKinsey Company in 8 African countries, there were 1073 Chinese companies involved in OBOR projects employing only 44% of local employees while the rest are Chinese.

standards and guarantees under which its own investments are made.

5. Coordination of the OBOR investments in infrastructures with the investments and the corresponding services planned for related infrastructures by the EU.

As regards the last of the above five conditions, it should not be forgotten that the EU is developing a pan-European network of Transport corridors by all modes of transport - the Trans-European Transport Networks (TEN-Ts). As the OBOR provides funding for infrastructures that may not be of the same nature and priority with the plans and priorities of the TEN-Ts, it is conceivable that this can cause conflict with the policies of the EU. A characteristic example of this situation is the construction of the railway ring of Budapest. This project was promoted by the Hungarian government in order to enhance the country's rail network by by-passing Budapest. The project would reduce the transit time to Hungary for freight trains by as much as 4 days. The EU had not yet approved this project, due mainly to the environmental implications that would disrupt suburban areas of the city. This project was, however, very much in line with the OBOR objectives and priorities, and the Hungarian government eventually came to an agreement with China to finance it through the OBOR financing mechanisms. The project was financed by the China Development Bank with a total of €1.2 billion. As expected, this case was considered as "disruptive" by the European Commission which intervened, stating its objections to the financing of the specific project (Van der Putten, 2016).

Despite such objections, the EU has come to an understanding with China regarding the OBOR initiative. In September 2015 it signed a Memorandum of Understanding stating a number of principles to be followed in the development of OBOR in EU member countries. At the same time, the Commission developed an internet-based Connectivity Platform that aims to monitor the conformity of both sides to the above five principles and the development of commonly agreed activities. So far, however, the results remain unclear. Overall, it can be said that the EU has adopted a cautious attitude of "wait and see" in relation to the OBOR initiative.

Conclusion

The officially stated aims of the OBOR initiative as expressed by the Chinese government are to: free and facilitate commerce and investments; promote economic cooperation with the countries involved; coordinate policies on various global issues; create competencies and human resources interaction. In the Mediterranean region, the Belt and Road initiative has so far developed – perhaps by way of priority – a number of infrastructural investments that have most notably facilitated Chinese exports to central and eastern European countries and placed the region in one of the most successful OBOR transport corridors. These investments are made under the umbrella of the so called 17+1 initiative which is a multilateral inter-governmental agreement between 17 countries in the area and the Chinese government. There are more than 20 other bilateral or trilateral agreements under this umbrella 17+1 initiative and it can be said that, overall, the OBOR has created in the area of eastern Mediterranean and Balkan peninsula, a multilateral cooperation that is beneficial for both sides. On the one hand, countries of the region benefit from financing for major infrastructures not only in the transport sector but also in other sectors such as energy, tourism, etc., and on the other, China benefits by developing the major transport corridors it needs to access the markets of central and eastern Europe.

There are some reservations, however, that are expressed on behalf of the European Union and other western governments (including the US). They have to do with the wider political and economic repercussions foreseen by these governments that may result from increased exposure to Chinese influence and debt. They are also concerned about the eventual Chinese control of the main logistical supply chains at global level and to some extent other sectors of local economies such as commerce, energy and so on. Other problems that have been noted in relation to the Chinese OBOR projects' execution in the area of the Mediterranean are the following:

a) Inclusion of the new infrastructure projects in the approved list of investments without sufficient prior evaluation of their feasibility and justification.

b) Utilization of Chinese labor, materials and equipment by way of priority or exclusivity.

c) Large environmental footprint of the infrastructures especially in the energy sector.

d) Limited understanding of the functions of the local markets and tendency to non-compliance with the local labor legislation and procedures (e.g., as regards salaries and insurance issues of personnel).

e) High levels of borrowing for the recipient countries resulting from loans received in the process of OBOR infrastructure developments. These loans may solve short-term financing problems but could also result in "borrowing traps" in the long-term.

Based on the experience from the OBOR presence in Greece, a country at the forefront of the OBOR investments in the Mediterranean region, our final concluding remark would be that the overall results so far point to a "win-win" situation. Both sides have benefitted. For Greece, it is fair to say that the investments made by COSCO in the Piraeus port have benefitted both the port itself and the Greek economy overall. During the years since 2009 when the concession to COSCO started, the Piraeus port became one of the fastest growing ports in the world and is currently the no. 1 port in the Mediterranean. At the same time, COSCO's investments in infrastructure and equipment have made the port a focus of economic activity for the region, increasing local employment and creating value adding economic activities that would not have occurred there had the port remained under the old regime. It has also created valuable political capital for the government of Greece, which, while remaining a strong member of the EU and the Eurozone, has improved its relations with China and other international Organisations and fora of Chinese influence. Meanwhile, the Chinese side has secured – as illustrated by the port of Piraeus - a hub of operations of global significance, whilst developing its relations with a member country of the EU that, given the right circumstances, stands to become the "bridge" between two worlds, that of the EU and Europe and that of the PRC and Asia.

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Keywords

Port of Piraeus, Sea-Land bridge, One-Belt-One-Road, combined transport, Greek transport.